



**Umvoti Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2015**

# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## General Information

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### Executive committee

#### Mayor

TC Ngubane ( Mayor)  
MS Yengwa (Speaker)  
ES Shange (Deputy Mayor)  
PMS Ngubane (Exco Member)  
R Maharaj (Exco Member)

#### Councillors

KL Chonco  
NG Masikane  
BG Dladla  
MR Dlamini  
IS Nyoka  
NSV Machaba  
BE Mlondo  
LO Mdlalose  
EN Mncube  
ZC Ngema  
SA Nzama  
M Pillay  
ML Shezi  
SV Zondi  
PT Zuma  
ZW Xaba  
PR Buss  
NK Ngubane

### Grading of local authority

Grade Six (6)

### Acting Chief Finance Officer (CFO)

Sphindile Ngiba

### Registered office

106 Pine Street  
Greytown  
3250

### Bankers

ABSA Bank

### Auditors

The Auditor General South Africa

### Website

[www.umvoti.gov.za](http://www.umvoti.gov.za)

### Other Information

Telephone : 033 413 9100

# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Index

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The reports and statements set out below comprise the annual financial statements presented to the Council:

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### Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and are given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the council sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The accounting officer certifies that the salaries, allowances and benefits of councillors as disclosed in note 25 of these annual financial statements are within the upper limits of the framework envisaged in section 219 of the constitution, read with the Remuneration of Public Office Bearers Act (Act no.20 of 1998) and the minister of Provincial and Local Government.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements are examined by the municipality's external auditors and their report is presented to the council upon completion.

The annual financial statements set out on pages 4 to 48, which have been prepared on the going concern basis, were approved on 31 August 2015 and are signed by:

  

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Accounting Officer  
B A Xulu

# **Umvoti Local Municipality**

Annual Financial Statements for the year ended 30 June 2015

## **Accounting Officer's Report**

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The accounting officer submits his report for the year ended 30 June 2015.

### **1. Going concern**

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### **2. Subsequent events**

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	5	3,091,082	2,298,997
Receivables from non-exchange transactions	6	875,219	1,854,140
VAT receivable		10,065,226	-
Consumer debtors	7	27,764,013	21,879,811
Cash and cash equivalents	8	39,475,812	59,860,243
		<b>81,271,352</b>	<b>85,893,191</b>
<b>Non-Current Assets</b>			
Investment property	2	38,665,000	39,643,405
Property, plant and equipment	3	399,779,104	373,693,592
Intangible assets	4	1,424,284	147,433
Heritage assets		313,956	313,956
		<b>440,182,344</b>	<b>413,798,386</b>
<b>Total Assets</b>		<b>521,453,696</b>	<b>499,691,577</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	14	42,476,988	21,247,885
VAT payable	15	-	174,576
Consumer deposits	16	2,338,707	2,273,576
Unspent conditional grants and receipts	11	13,303,784	4,741,498
Provisions	12	273,252	113,787
		<b>58,392,731</b>	<b>28,551,322</b>
<b>Non-Current Liabilities</b>			
Employee benefit obligation	13	14,213,579	12,961,063
Provisions	12	1,789,798	1,517,520
		<b>16,003,377</b>	<b>14,478,583</b>
<b>Total Liabilities</b>		<b>74,396,108</b>	<b>43,029,905</b>
<b>Net Assets</b>		<b>447,057,588</b>	<b>456,661,672</b>
<b>Reserves</b>			
Housing Development Fund	10	11,541,387	10,738,322
Accumulated surplus		435,516,199	445,923,351
<b>Total Net Assets</b>		<b>447,057,586</b>	<b>456,661,673</b>

\* See Note 40

# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Financial Performance

Figures in Rand

	Note(s)	2015	2014 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	19	63,544,537	60,008,437
Rental of facilities and equipment		3,226,327	3,097,395
Interest received (trading)		563,794	232,872
Agency services		1,181,159	1,105,559
Licences and permits		1,672,430	1,767,416
Other income	22	274,555	1,152,865
Interest received - investment	26	4,499,065	3,640,853
<b>Total revenue from exchange transactions</b>		<b>74,961,867</b>	<b>71,005,397</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	18	29,459,106	21,524,734
Property rates - penalties imposed	18	1,905,365	1,357,597
<b>Transfer revenue</b>			
Government grants & subsidies	20	121,947,750	84,661,342
Public contributions and donations		-	50,000
Fines, Penalties and Forfeits		241,201	595,551
<b>Total revenue from non-exchange transactions</b>		<b>153,553,422</b>	<b>108,189,224</b>
<b>Total revenue</b>	17	<b>228,515,289</b>	<b>179,194,621</b>
<b>Expenditure</b>			
Employee related costs	24	(55,605,593)	(46,068,556)
Remuneration of councillors	25	(7,771,465)	(6,867,774)
Depreciation and amortisation	27	(20,124,097)	(19,425,420)
Bad Debts		(3,873,333)	(463,552)
Lease rentals on operating lease		(209,354)	(7,630)
Grant Expenditure		(48,323,970)	-
Repairs and maintenance		(9,454,597)	(6,230,522)
Bulk purchases	31	(36,242,982)	(32,855,618)
Contracted services	29	(25,038,322)	(10,627,827)
Transfers and Subsidies	30	(1,508,958)	(2,321,905)
General Expenses	23	(28,988,299)	(30,299,030)
<b>Total expenditure</b>		<b>(237,140,970)</b>	<b>(155,167,834)</b>
<b>Operating (deficit) surplus</b>		<b>(8,625,681)</b>	<b>24,026,787</b>
Gain on disposal of assets and liabilities		-	30,519
Fair value adjustments		(978,405)	-
		<b>(978,405)</b>	<b>30,519</b>
<b>(Deficit) surplus for the year</b>		<b>(9,604,086)</b>	<b>24,057,306</b>

\* See Note 40

# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Housing Development fund	Total reserves	Accumulated surplus	Total net assets
<b>Balance at 01 July 2013</b>	<b>288,747,639</b>	<b>11,158,707</b>	<b>299,906,346</b>	<b>135,697,151</b>	<b>435,603,497</b>
Changes in net assets					
Transfer Housing Development Fund	-	844,125	844,125	(844,125)	-
Transfer depreciation - revalued assets	(12,609,558)	-	(12,609,558)	12,609,558	-
Surplus(deficit) for the Year	-	(10,510)	(10,510)	10,510	-
Net income (losses) recognised directly in net assets	(12,609,558)	833,615	(11,775,943)	11,775,943	-
Surplus for the year	-	-	-	24,057,306	24,057,306
Total recognised income and expenses for the year	(12,609,558)	833,615	(11,775,943)	35,833,249	24,057,306
Transfer to accumulated surplus	(276,138,081)	-	(276,138,081)	276,138,081	-
transfer to investment Property	-	(1,254,000)	(1,254,000)	-	(1,254,000)
Adjustments to investment properties and performance bonus	-	-	-	(1,693,000)	(1,693,000)
Prior period error	-	-	-	(52,130)	(52,130)
Total changes	(288,747,639)	(420,385)	(289,168,024)	310,226,200	21,058,176
<b>Restated* Balance at 01 July 2014</b>	<b>-</b>	<b>10,738,322</b>	<b>10,738,322</b>	<b>445,923,350</b>	<b>456,661,672</b>
Changes in net assets					
Depreciation recovered	(12,297,863)	-	(12,297,863)	12,297,863	-
Prior year error	-	-	-	(12,297,863)	(12,297,863)
Interest transfer	-	803,065	803,065	(803,065)	-
Net income (losses) recognised directly in net assets	(12,297,863)	803,065	(11,494,798)	(803,065)	(12,297,863)
(Deficit) / Surplus for the year	-	-	-	(9,604,086)	(9,604,086)
Total recognised income and expenses for the year	(12,297,863)	803,065	(11,494,798)	(10,407,151)	(21,901,949)
Prior period error	12,297,863	-	12,297,863	-	12,297,863
Total changes	-	803,065	803,065	(10,407,151)	(9,604,086)
<b>Balance at 30 June 2015</b>	<b>-</b>	<b>11,541,387</b>	<b>11,541,387</b>	<b>435,516,199</b>	<b>447,057,586</b>
Note(s)	9	10			

\* See Note 40



# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Cash Flow Statement

Figures in Rand

	Note(s)	2015	2014 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Receipts from ratepayers and other		102,068,474	84,802,413
Government grants		130,208,000	90,751,355
Interest income		4,499,065	3,640,853
		<u>236,775,539</u>	<u>179,194,621</u>
<b>Payments</b>			
Cash paid to employees and Councillors		(63,377,058)	(52,936,331)
Cash paid to suppliers		(146,296,454)	(85,068,304)
		<u>(209,673,512)</u>	<u>(138,004,635)</u>
<b>Net cash flows from operating activities</b>	32	<u>27,102,027</u>	<u>41,189,986</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(45,889,399)	(30,377,087)
Proceeds from sale of property, plant and equipment	3	-	394,682
Purchase of other intangible assets	4	(1,531,148)	-
Other cash item		(65,911)	-
<b>Net cash flows from investing activities</b>		<u>(47,486,458)</u>	<u>(29,982,405)</u>
<b>Cash flows from financing activities</b>			
Increase(decrease) in consumer deposits		-	134,395
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>(20,384,431)</u>	<u>11,341,976</u>
Cash and cash equivalents at the beginning of the year		59,860,243	48,518,268
<b>Cash and cash equivalents at the end of the year</b>	8	<u>39,475,812</u>	<u>59,860,244</u>

\* See Note 40

# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reasons for significant variances
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	63,594,000	-	63,594,000	63,544,537	(49,463)	refer note 43
Other income - (rollup)	7,348,000	(416,000)	6,932,000	9,667,372	2,735,372	
Interest received - investment	3,000,000	-	3,000,000	4,499,065	1,499,065	refer note 43
<b>Total revenue from exchange transactions</b>	<b>73,942,000</b>	<b>(416,000)</b>	<b>73,526,000</b>	<b>77,710,974</b>	<b>4,184,974</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	24,149,000	5,756,000	29,905,000	29,459,106	(445,894)	
<b>Transfer revenue</b>						
Government grants & subsidies	114,851,000	6,549,000	121,400,000	121,947,750	547,750	refer note 43
<b>Total revenue from non-exchange transactions</b>	<b>139,000,000</b>	<b>12,305,000</b>	<b>151,305,000</b>	<b>151,406,856</b>	<b>101,856</b>	
<b>Total revenue</b>	<b>212,942,000</b>	<b>11,889,000</b>	<b>224,831,000</b>	<b>229,117,830</b>	<b>4,286,830</b>	
<b>Expenditure</b>						
Personnel	(71,856,000)	11,356,000	(60,500,000)	(55,605,593)	4,894,407	refer note 43
Remuneration of councillors	(6,320,000)	(1,500,000)	(7,820,000)	(7,771,465)	48,535	
Depreciation and and asset impairment	(21,543,000)	(430,000)	(21,973,000)	(20,124,097)	1,848,903	
Materials and bulk purchases	(41,000,000)	-	(41,000,000)	(36,242,982)	4,757,018	refer note 43
Transfers and Subsidies	(42,544,000)	41,633,000	(911,000)	(1,508,958)	(597,958)	
General Expenses	(43,091,000)	(10,354,000)	(53,445,000)	(116,490,416)	(63,045,416)	refer note 43
<b>Total expenditure</b>	<b>(226,354,000)</b>	<b>40,705,000</b>	<b>(185,649,000)</b>	<b>(237,743,511)</b>	<b>(52,094,511)</b>	
<b>Operating deficit</b>	<b>(13,412,000)</b>	<b>52,594,000</b>	<b>39,182,000</b>	<b>(8,625,681)</b>	<b>(47,807,681)</b>	
Fair value adjustments	-	-	-	(978,405)	(978,405)	
<b>Deficit before taxation</b>	<b>(13,412,000)</b>	<b>52,594,000</b>	<b>39,182,000</b>	<b>(9,604,086)</b>	<b>(48,786,086)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(13,412,000)</b>	<b>52,594,000</b>	<b>39,182,000</b>	<b>(9,604,086)</b>	<b>(48,786,086)</b>	

### Reconciliation

# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2015</b>											
<b>Financial Performance</b>											
Property rates	24,149,000	5,756,000	29,905,000	-	-	29,905,000	31,364,471	-	1,459,471	105 %	130 %
Service charges	63,594,000	-	63,594,000	-	-	63,594,000	63,544,537	-	(49,463)	100 %	100 %
Investment revenue	3,000,000	-	3,000,000	-	-	3,000,000	4,499,065	-	1,499,065	150 %	150 %
Transfers recognised - operational	66,465,000	2,313,000	68,778,000	-	-	68,778,000	73,677,474	-	4,899,474	107 %	111 %
Other own revenue	7,348,000	(416,000)	6,932,000	-	-	6,932,000	7,159,466	-	227,466	103 %	97 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>164,556,000</b>	<b>7,653,000</b>	<b>172,209,000</b>	-	-	<b>172,209,000</b>	<b>180,245,013</b>	-	<b>8,036,013</b>	<b>105 %</b>	<b>110 %</b>
Employee costs	(71,856,000)	11,356,000	(60,500,000)	-	-	(60,500,000)	(55,605,593)	-	4,894,407	92 %	77 %
Remuneration of councillors	(6,320,000)	(1,500,000)	(7,820,000)	-	-	(7,820,000)	(7,771,465)	-	48,535	99 %	123 %
Depreciation and asset impairment	(21,543,000)	(430,000)	(21,973,000)	-	-	(21,973,000)	(23,997,430)	-	(2,024,430)	109 %	111 %
Materials and bulk purchases	(41,000,000)	-	(41,000,000)	-	-	(41,000,000)	(36,242,982)	-	4,757,018	88 %	88 %
Transfers and grants	(42,544,000)	41,633,000	(911,000)	-	-	(911,000)	(1,508,958)	-	(597,958)	166 %	4 %
Other expenditure	(43,091,000)	10,354,000	(32,737,000)	-	-	(32,737,000)	(112,992,947)	-	(80,255,947)	345 %	262 %
<b>Total expenditure</b>	<b>(226,354,000)</b>	<b>61,413,000</b>	<b>(164,941,000)</b>	-	-	<b>(164,941,000)</b>	<b>(238,119,375)</b>	-	<b>(73,178,375)</b>	<b>144 %</b>	<b>105 %</b>
<b>Surplus/(Deficit)</b>	<b>(61,798,000)</b>	<b>69,066,000</b>	<b>7,268,000</b>	-	-	<b>7,268,000</b>	<b>(57,874,362)</b>	-	<b>(65,142,362)</b>	<b>(796)%</b>	<b>94 %</b>

# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	48,386,000	4,236,000	52,622,000	-	-	52,622,000	48,270,276		(4,351,724)	92 %	100 %
Surplus (Deficit) after capital transfers and contributions	(13,412,000)	73,302,000	59,890,000	-	-	59,890,000	(9,604,086)		(69,494,086)	(16)%	72 %
Surplus/(Deficit) for the year	(13,412,000)	73,302,000	59,890,000	-	-	59,890,000	(9,604,086)		(69,494,086)	(16)%	72 %

# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Changes in accounting policies and comparability

Changes in accounting policies due to adoption of newly effective Standards of GRAP have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy or where allowed transitional provisions had been adopted. In such cases the municipality would restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Errors are corrected retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality would restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

The municipality changes an accounting policy only if the change:

- a) is required by a Standard of GRAP; or
- b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the performance or cash flow.

#### 1.4 Comparative information

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

#### 1.5 Significant judgements and sources of estimation uncertainty

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the annual financial statements:

##### Financial assets and liabilities

The classification of financial assets and liabilities into categories is based on relevant accounting standards as assessed by management.

##### Impairment: Write down of PPE and inventories

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Significant estimates and judgments are made relating to PPE impairment tests and write down of inventories to net realisable values.

# **Umvoti Local Municipality**

Annual Financial Statements for the year ended 30 June 2015

## **Accounting Policies**

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### **1.5 Significant judgements and sources of estimation uncertainty (continued)**

#### **Impairments of financial assets**

In making the estimation of the impairment, management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: Financial Instruments. The management of the municipality is satisfied that the impairment of financial assets recorded during the year, is appropriate.

#### **Useful lives of Property, plant and equipment**

The municipality depreciates/amortises its property, plant and equipment, and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

#### **Defined benefits plan liabilities**

The municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are post-retirement health benefit obligations and long-service awards. Details of the liabilities are provided in the notes to the annual financial statements. Assumptions of the actuaries are contained in the actuary reports. Multi-employer defined benefit funds are accounted for as defined contribution plan.

#### **Revenue recognition**

In making their judgement, the management considered the detailed criteria for the recognition of revenue in particular when services are rendered, whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.6 Standards and interpretations used but not effective

#### **GRAP 18: Segment reporting**

The effect of this standard will be on presentation. This standard does currently not apply to municipalities or municipal entities.

#### **GRAP 20: Related party disclosures**

The objective of this standard of GRAP is to ensure that a municipality's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties. IPSAS disclosures have been included where appropriate.

#### **GRAP 32: Service concession arrangements: Grantor**

The objective of this standard is to prescribe the accounting for service concession arrangements by the grantor. There is no impact on the municipality.

#### **GRAP 105: Transfers of functions between entities under common control**

The objective of this standard of GRAP is to establish accounting principles for the acquirer and transferor in a transfer of functions between municipalities/entities under common control.

It is unlikely that the standard will have a material impact on the municipality's financial statements

#### **GRAP 106: Transfers of functions between entities not under common control**

The objective of this standard of GRAP is to establish accounting principles for the acquirer in a transfer of functions between municipalities/entities not under common control.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

#### **GRAP 107: Mergers**

The objective of this standard of GRAP is to establish accounting principles for the combined municipality and combining municipalities in a merger.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

#### **GRAP 108: Statutory receivables**

The objective of this standard is to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

This standard will have a minimum effect on the financial statements of the municipality.

#### **IGRAP 17 Service concession arrangements where the grantor controls a significant residual interest in an asset**

The interpretation on Service Concession Arrangements: Grantor requires the grantor to recognise a service concession asset provided by the operator and an upgrade to an existing asset of the grantor in certain circumstances.

This interpretation does not apply to the municipality.

### 1.7 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.7 Investment property (continued)

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

### 1.8 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one reporting period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or assets, or a combination of assets and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Land is not depreciated as it is regarded as having an indefinite life. Depreciation of assets other than land is calculated, using the straight line method, to depreciate their cost to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation rates are based on the following estimated useful lives.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	5 to 50 Years
Furniture and fixtures	7 to 10 Years
Motor vehicles	
▪	5 to 7 Years
Office equipment	3 to 5 Years



# Umvoti Local Municipality

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## Accounting Policies

### 1.8 Property, plant and equipment (continued)

#### Infrastructure

• Roads and Paving	10 to 20 Years
• Pedestrian Malls	30 Years
• Major Substation Buildings	10 to 50 Years
• Transformers and Related Equipment	20-50 Years
• Mains	20 Years
• Street Lights	20 Years

#### Community

• Buildings	5 to 50 Years
• Security	5 to 10 Years

#### Other plant and equipment

3 Years

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset.

### Subsequent measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment, are measured at cost (which includes deemed cost for previously unrecognised assets), less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

### 1.9 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.9 Intangible assets (continued)

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

### 1.10 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

### 1.11 Financial instruments

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets or financial liabilities.

#### Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from non-exchange transactions	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost
Consumer Debtors	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from non-exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at amortised cost
Provisions	Financial liability measured at amortised cost

#### Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.11 Financial instruments (continued)

#### Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

#### Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

#### Derecognition

##### Financial assets

The municipality derecognises financial assets when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

##### Financial liabilities

The municipality derecognises financial liabilities when the municipality's obligations are discharged, cancelled or they expire.

# **Umvoti Local Municipality**

Annual Financial Statements for the year ended 30 June 2015

## **Accounting Policies**

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### **1.12 Leases**

#### **Operating leases - lessor**

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

#### **Operating leases - lessee**

Operating lease rentals are recognised as an expense in surplus or deficit for the year on a straight-line basis over the term of the relevant lease.

### **1.13 Inventories**

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

### **1.14 Impairment of cash-generating assets**

#### **Identification**

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

#### **Value in use**

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### **Discount rate**

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

#### **Recognition and measurement (individual asset)**

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.15 Impairment of non-cash-generating assets

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### 1.16 Employee benefits

#### Short-term employee benefits

Remuneration to employees is recognised in surplus or deficit for the year as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is included as an accrual in financial liabilities. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.16 Employee benefits (continued)

#### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in surplus or deficit for the year in which the service is rendered by the relevant employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The municipality has no further payment obligations once the contributions have been paid.

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

The Municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

#### Pension benefits

The municipality and its employees contribute to the Natal Joint Municipal Pension Fund (Superannuation, Retirement and Provident fund). The KZN Municipal Pension Fund is a defined contribution fund. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. Natal Joint Superannuation & Retirement Funds and Government Employee Pension Fund are defined benefit funds. The Natal Joint Provident Fund and South African Local Authority Pension Fund are defined contribution funds.

The schemes are funded through payments to fund administered or trustee-administered funds, determined by periodic actuarial calculations.

Defined benefit plans have been accounted for as defined contribution plans in accordance with the requirements on multi-employer plans where sufficient information is not available to account for such plans as defined benefit plans. As the fund administrators do not have sufficient information available to allocate the shortfall on liabilities to individual employers, no liability is recognised for any shortfall of fund assets as compared to fund liabilities. Any surcharges that may be levied by the fund from time to time in order to compensate for shortfalls, are recognised as expenses in the period in which they become payable to the fund. As surcharges are advised long in advance, based on actuarial valuations of the fund as a whole, the necessary provision for the payment thereof is made in the course of the municipality's normal budgeting processes.

#### Post-retirement health care benefits

The municipality has an obligation to provide post-retirement health care benefits to certain of its retirees. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service), on retirement, is entitled to remain a continued member of the medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and recognised actuarial gains and losses, adjusted by past service costs where applicable. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and an appropriate discount rate. Valuations of these obligations are carried out by independent qualified actuaries.

Actuarial gains or losses are accounted for in full and are recognised in the statement of financial performance.

#### Long service awards

# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.16 Employee benefits (continued)

The municipality has an obligation to provide benefits to its employees. The municipality's liability is based on actuarial valuation using actuarial assumptions. Actuarial gains and losses on the long-term incentives are accounted for in surplus or deficit for the year.

### 1.17 Provisions and contingencies

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the statement of financial performance as a finance cost as it occurs.

### 1.18 Commitments

Capital commitments inclusive of VAT are disclosed for all assets and intangible assets. The commitment is measured at the value of the contract less amounts incurred.

### 1.19 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue comprises the fair value of the consideration received or receivable for the sale or rendering of services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits or service potential will flow to the municipality and when specific criteria have been met for each of the municipality's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the transaction have been resolved. The municipality bases its estimates on historical results, taking into consideration the consumer, transaction and the specifics of each arrangement.

#### Service charges

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made when meter readings cannot be performed

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff. Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale

#### Tariff charges and Rentals

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

Revenue from the rental of facilities and equipment classified as operating leases is recognised on a straight-line basis over the term of the lease agreement where material, where such lease periods span over more than one financial year..

#### Finance Income

# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.19 Revenue from exchange transactions (continued)

Interest earned on investments is recognised in surplus or deficit for the year on the time proportionate basis that takes into account the effective yield on the investment.

### 1.20 Revenue from non-exchange transactions

#### Rates, including collection charges and penalties interest

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

#### Fines

Fines constitute both spot fines and summonses.

The revenue from traffic fines is subject to judicial process which is outside the municipality's control.

Revenue from traffic fines is initially measured based on receipts.

#### Public Contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Revenue is recognised at the fair value of the consideration received. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

#### Government grants and receipts

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised as accounts receivable in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the liability and if it is the municipality's interest it is recognised as interest earned in surplus of deficit for the year.

### 1.21 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Umvoti municipality has no borrowing costs for the period under review.

### 1.22 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003)

### 1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.



# **Umvoti Local Municipality**

Annual Financial Statements for the year ended 30 June 2015

## **Accounting Policies**

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### **1.24 Irregular expenditure**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### **1.25 Housing development fund**

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from National and Provincial Government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to fund.

In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into fund. Where the municipality experiences a net loss on proceeds realised these are funded by the accumulated surplus. Monies standing to the credit of the fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

### **1.26 Budget information**

The municipality presents a comparison of the budget amounts for which it is held publicly accountable and actual amounts as a separate statement called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the financial statements. The budget and financial statements are comparable on an accruals basis.

### **1.27 Related parties**

Individuals, including councillors, as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

### **1.28 Events after reporting date**

Events after the reporting date that have been classified as adjusting events are accounted for in the annual financial statements. Events after the reporting date that are classified as non-adjusting events after the reporting date are disclosed in the notes to the annual financial statements.

# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

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### 2. Investment property

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	38,665,000	-	38,665,000	39,643,405	-	39,643,405

#### Reconciliation of investment property - 2015

	Opening balance	Fair value adjustments	Total
Investment property	39,643,405	(978,405)	38,665,000

#### Reconciliation of investment property - 2014

	Opening balance	Total
Plantation land and other - refer note 40	39,643,405	39,643,405

Mainly plantation land relates to plantations being leased to Mondi. Rental income from this lease amounted to R 2.4 million.

### 3. Property, plant and equipment

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	91,566,733	(10,687,425)	80,879,308	91,407,039	(8,196,590)	83,210,449
Infrastructure	288,796,485	(67,573,572)	221,222,913	279,440,181	(53,819,551)	225,620,630
Community	33,473,329	(10,198,440)	23,274,889	33,473,329	(8,582,678)	24,890,651
Land and Buildings- WIP	746,003	-	746,003	746,003	-	746,003
Community Assets- WIP	18,029,180	-	18,029,180	5,525,706	-	5,525,706
Infrastructure- WIP	40,105,340	-	40,105,340	22,755,598	-	22,755,598
Other property, plant and equipment	26,329,781	(10,808,310)	15,521,471	19,743,683	(8,799,128)	10,944,555
<b>Total</b>	<b>499,046,851</b>	<b>(99,267,747)</b>	<b>399,779,104</b>	<b>453,091,539</b>	<b>(79,397,947)</b>	<b>373,693,592</b>

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### 3. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Transfers	Depreciation	Total
Buildings	83,210,449	159,694	-	(2,490,835)	80,879,308
Infrastructure	225,620,630	6,769,965	2,586,338	(13,754,020)	221,222,913
Community	24,890,651	-	-	(1,615,762)	23,274,889
Land and Buildings - WIP	746,003	-	-	-	746,003
Community Assets- WIP	5,525,706	12,503,474	-	-	18,029,180
Infrastructure -WIP	22,755,598	19,936,080	(2,586,338)	-	40,105,340
Other property, plant and equipment	10,944,555	6,520,186	-	(1,943,270)	15,521,471
	<b>373,693,592</b>	<b>45,889,399</b>	<b>-</b>	<b>(19,803,867)</b>	<b>399,779,104</b>

# Umvoti Local Municipality

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### 3. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Buildings	80,394,027	-	-	5,322,241	(2,505,819)	83,210,449
Infrastructure	201,386,050	20,398,910	-	17,494,700	(13,659,030)	225,620,630
Community	26,482,911	23,125	-	-	(1,615,385)	24,890,651
Land and Buildings- WIP	5,906,323	161,920	-	(5,322,240)	-	746,003
Community Assets- WIP	5,472,398	53,308	-	-	-	5,525,706
Infrastructure WIP	33,939,586	6,310,712	-	(17,494,700)	-	22,755,598
Other property, plant and equipment	9,579,715	3,371,953	(364,163)	-	(1,642,950)	10,944,555
	<b>363,161,010</b>	<b>30,319,928</b>	<b>(364,163)</b>	<b>1</b>	<b>(19,423,184)</b>	<b>373,693,592</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality. Land valued at R 9 247 000 is not registered in the name of the municipality

### 4. Intangible assets

	2015		2014	
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Cost / Valuation	Accumulated amortisation and accumulated impairment
Computer software, other	2,268,311	(844,027)	1,424,284	737,163
				(589,730)
				147,433

#### Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software, other	147,433	1,531,148	(254,297)	1,424,284

# Umvoti Local Municipality

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### 4. Intangible assets (continued)

#### Reconciliation of intangible assets - 2014

	Opening balance	Total
Computer software, other	147,433	147,433

### 5. Inventories

Consumables	3,186,620	2,394,535
Inventories (write-downs) Provision	3,186,620 (95,538)	2,394,535 (95,538)
	<b>3,091,082</b>	<b>2,298,997</b>

### 6. Receivables from non-exchange transactions

Government grants and subsidies		257,355
Accrued interest on Investment		
Other debtors	166,869	324,383
Uthukela Water	708,350	1,272,402
Less :Provision for Doubtful debts	407,585 (407,585)	407,585 (407,585)
	<b>875,219</b>	<b>1,854,140</b>

### 7. Consumer debtors

#### Gross balances

Rates	18,147,999	14,931,769
Electricity	7,390,957	6,373,751
Service debtors	2,522,660	2,337,099
Housing rental	167,109	194,628
Other	4,180,594	1,126,832
	<b>32,409,319</b>	<b>24,964,079</b>

#### Less: Allowance for impairment

Electricity, housing and service debtors	(4,645,306)	(3,084,268)
--	-------------	-------------

#### Net balance

Rates	18,147,999	14,931,769
Electricity	2,745,651	3,289,483
Refuse	2,522,660	2,337,099
Housing rental	167,109	194,628
Other	4,180,594	1,126,832
	<b>27,764,013</b>	<b>21,879,811</b>

#### Rates

Current (0 -30 days)	2,265,806	1,788,771
31 - 60 days	1,217,121	808,647
61 - 90 days	991,503	668,128
91 - 120 days	887,842	557,478
121+	14,637,868	10,672,535
	<b>20,000,140</b>	<b>14,495,559</b>

# Umvoti Local Municipality

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### 7. Consumer debtors (continued)

#### Electricity and Other

Current (0 -30 days)	4,836,882	4,440,237
31 - 60 days	1,370,626	808,647
61 - 90 days	600,973	357,653
91 - 120 days	457,637	210,807
121 - 365 days	5,143,060	4,726,563
	<b>12,409,178</b>	<b>10,543,907</b>

#### Reconciliation of allowance for impairment

Balance at beginning of the year	3,084,267	2,970,430
Contributions to allowance	3,873,333	463,552
Debt impairment written off against allowance	(2,312,294)	(349,715)
	<b>4,645,306</b>	<b>3,084,267</b>

### 8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	3,530	3,530
Bank balances	15,486,380	5,964,022
Short-term deposits	23,985,902	53,892,691
	<b>39,475,812</b>	<b>59,860,243</b>

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2015
Absa main account- 4064988800	15,025,685	5,636,570	-	15,486,380	5,964,022	-
Absa call account- 9184583753	1,078,668	1,037,742	-	1,078,668	1,037,742	-
Absa call account- 9167223251	829,281	2,854,948	-	829,281	2,854,948	-
Nedbank Investment- 03/71650155660041	12,077,952	-	-	12,077,953	-	-
FNB Investment- 74407730700	10,000,000	-	-	10,000,000	-	-
FNB-Investments- 74420384526	-	10,000,000	-	-	10,000,000	-
Absa -call Account- 2074241692	-	10,000,000	-	-	10,000,000	-
Absa call account- 2074352685	-	10,000,000	-	-	10,000,000	-
FNB Investments- 74420390078	-	5,000,000	-	-	5,000,000	-
Nedbank Investment - 716501556630	-	15,000,000	-	-	15,000,000	-
<b>Total</b>	<b>39,011,586</b>	<b>59,529,260</b>	<b>-</b>	<b>39,472,282</b>	<b>59,856,712</b>	<b>-</b>

### 9. Revaluation reserve

Opening balance	-	288,747,639
Change during the year	(12,297,863)	(12,609,558)
Transfer to accumulated surplus	-	(276,138,081)
Correction of error	12,297,863	-

Refer to note 40 for prior period errors

# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

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	2015	2014
<b>10. Housing Development Fund</b>		
Unappropriated Surplus refer note 40	10,738,322	11,980,902
Loans extinguished by government on 01 April 1998	-	375,980
Contributions to cost of services	-	(364,560)
Interest	803,065	-
Transfer from investment property	-	(1,254,000)
	<b>11,541,387</b>	<b>10,738,322</b>

The cash value of properties to the value of R 1 254 000 is due to the municipality.

Housing instalment Debtors	97,371	97,371
Cash and cash equivalents	12,698,016	11,894,951
	<b>12,795,387</b>	<b>11,992,322</b>

### 11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Taxi rank	98,264	98,264
Sports and recreation	292,893	292,893
Municipal Infrastructure Grant	3,956,617	3,621,861
Urban renewal plan	-	238,298
Management Assistance Project	-	100,000
Corridor development	2,040	2,040
Eshane development	24,971	85,023
Phasiwe farm	17,399	17,399
Finance Management Grant	148,461	2,917
Gijima KZN	12,451	12,451
Storm damage	43,170	43,170
Library computer expenses	140,458	149,829
Specific program	77,353	77,353
INEP	677,037	-
Small town rehabilitation Grant	7,653,670	-
Disaster management Grant	159,000	-
	<b>13,303,784</b>	<b>4,741,498</b>

#### Movement during the year

Balance at the beginning of the year	4,741,498	6,562,422
Additions during the year	67,637,000	41,393,355
Income recognition during the year	(58,428,714)	(43,214,279)
Grants recalled	(646,000)	-
	<b>13,303,784</b>	<b>4,741,498</b>

# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

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### 12. Provisions

#### Reconciliation of provisions - 2015

	Opening Balance	Additions	Total
Long service awards	1,631,307	431,743	2,063,050

#### Reconciliation of provisions - 2014

	Opening Balance	Total
Long service awards	1,631,307	1,631,307
Non-current liabilities	1,789,798	1,517,520
Current liabilities	273,252	113,787
	<b>2,063,050</b>	<b>1,631,307</b>

### 13. Employee benefit obligations

#### Defined benefit plan

##### Post retirement medical aid plan

The municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes ( Bonitas, Keyhealth, LA Health ,SAMWU Med) most of which offer a range of options pertaining to levels of cover. the post employment Health care benefit actuarial valuation was conducted by Arch Actuarial Consulting. Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

#### Movement in the defined obligation plan

Opening balance	13,881,637	12,961,063
Current service costs	417,828	385,048
Interest cost	1,157,379	1,080,686
Actuarial (gain)/ loss	(657,849)	(545,160)
Employer benefit payments	(585,416)	-
	<b>14,213,579</b>	<b>13,881,637</b>

#### Long service award

#### Movement in the defined benefit obligation

Opening balance	1,631,307	1,631,307
Current service cost	336,475	-
Interest cost	232,262	-
Actuarial loss/ (gain)	216,563	-
Benefit vesting	(353,557)	-
Less transfered to current provision	(273,252)	(113,787)
	<b>1,789,798</b>	<b>1,517,520</b>



# Umvoti Local Municipality

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### 13. Employee benefit obligations (continued)

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.51 %	8.06 %
Health care costs inflation rate	7.38 %	6.52 %
Net discount rate	1.05 %	0.78 %
Continuation of membership at retirement	70.00 %	70.00 %
Proportion married at retirement	50.00 %	50.00 %

The average retirement age is 65 years

The benefit accrual age is 55 years

#### Sensitivity results

The liability at the valuation date was recalculated to show the effect of:

- (i) The general salary inflation rate assumption;
- (ii) The discount rate assumption;
- (iii) The average retirement age of employees; and
- (iv) A 50% decrease in the assumed withdrawal rates from services

### 14. Payables from exchange transactions

Payments received in advanced - contract in process	725,213	3,622,003
Trade payables	28,346,391	7,290,812
Deposits received	3,957,039	1,540,442
Staff leave and bonus	4,847,845	4,568,690
Retentions	4,510,472	4,049,379
Other creditors	174,540	176,559
Suspense accounts	(89,145)	-
Stores suspense account	4,633	-
	<b>42,476,988</b>	<b>21,247,885</b>

The fair value of other creditors approximates their carrying value

### 15. VAT payable

Tax refunds payables

174,576

Vat is payable or receivable on receipts or payment basis respectively.

### 16. Consumer deposits

Electricity

2,338,707

2,273,576

# Umvoti Local Municipality

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	2015	2014
<b>17. Revenue</b>		
Service charges	63,544,537	60,008,437
Rental of facilities and equipment	3,226,327	3,097,395
Interest received (trading)	563,794	232,872
Agency services	1,181,159	1,105,559
Licences and permits	1,672,430	1,767,416
Other income - (rollup)	274,555	1,152,865
Interest received - investment	4,499,065	3,640,853
Property rates	29,459,106	21,524,734
Property rates - penalties imposed	1,905,365	1,357,597
Government grants & subsidies	121,947,750	84,661,342
Public contributions and donations	-	50,000
Fines, Penalties and Forfeits	241,201	595,551
	<b>228,515,289</b>	<b>179,194,621</b>

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	63,544,537	60,008,437
Rental of facilities and equipment	3,226,327	3,097,395
Interest received (trading)	563,794	232,872
Agency services	1,181,159	1,105,559
Licences and permits	1,672,430	1,767,416
Other income - (rollup)	274,555	1,152,865
Interest received - investment	4,499,065	3,640,853
	<b>74,961,867</b>	<b>71,005,397</b>

The amount included in revenue arising from non-exchange transactions is as follows:

<b>Taxation revenue</b>		
Property rates	29,459,106	21,524,734
Property rates - penalties imposed	1,905,365	1,357,597
<b>Transfer revenue</b>		
Government grants & subsidies	121,947,750	84,661,342
Public contributions and donations	-	50,000
Fines, Penalties and Forfeits	241,201	595,551
	<b>153,553,422</b>	<b>108,189,224</b>

### 18. Property rates

#### Rates received

Residential	13,482,090	10,942,967
Commercial	10,622,196	6,825,030
State	6,183,762	5,322,925
Small holdings and farms	6,251,504	5,218,885
Sundry Adjustments	1,270,518	532,716
Less: Income forgone	(8,350,964)	(7,317,789)
	<b>29,459,106</b>	<b>21,524,734</b>
Property rates - penalties imposed	1,905,365	1,357,597
	<b>31,364,471</b>	<b>22,882,331</b>

## Umvoti Local Municipality

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	2015	2014
<b>19. Service charges</b>		
Sale of electricity	56,278,020	53,381,320
Refuse removal	6,702,217	5,976,734
Other service charges	564,300	650,383
	<b>63,544,537</b>	<b>60,008,437</b>

# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

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	2015	2014
<b>20. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	62,571,000	49,358,000
Sport and recreation	-	141,346
Municipal systems Improvements Grant	1,034,000	1,175,577
Greytown rehabilitation	238,298	-
Gijima Grants	25,270	-
Thusong centre	-	952,515
Library	9,371	49,071
Expanded public works programme	2,132,000	1,660,000
Library Grant	961,254	800,000
Musiem Subsidy	151,745	284,000
Storm damage	-	2,778,330
Rural Electrification	4,872,906	3,101,853
Grant -Skills development	67,122	86,440
Specific programme grant	-	24,014
Finance Management Grant	1,554,456	1,438,083
Eshane Development	60,052	140,516
Kranskop expansion plan	-	382,493
Woolstone Greenfield plan	-	176,290
	<b>73,677,474</b>	<b>62,548,528</b>
<b>Capital grants</b>		
Municipal Infrastructure grant	24,516,243	21,855,459
Small town rehabilitation	2,346,330	-
Massification Grant	21,407,703	257,355
	<b>48,270,276</b>	<b>22,112,814</b>
	<b>121,947,750</b>	<b>84,661,342</b>
<b>Conditional and Unconditional</b>		
Included in above are the following grants and subsidies received:		
Conditional grants received	85,698,265	35,303,342
Unconditional grants received	62,571,000	49,358,000
	<b>148,269,265</b>	<b>84,661,342</b>
<b>Equitable Share</b>		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
<b>Taxi rank</b>		
Balance unspent at beginning of year	98,264	98,264
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	<b>98,264</b>	<b>98,264</b>
Conditions still to be met - remain liabilities (see note 11).		
<b>Sport and recreation</b>		
Balance unspent at beginning of year	292,893	434,239
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(141,346)
	<b>292,893</b>	<b>292,893</b>

# Umvoti Local Municipality

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### 20. Government grants and subsidies (continued)

#### MIG

Balance unspent at beginning of year	3,621,861	-
Current-year receipts	25,497,000	26,976,000
Conditions met - transferred to revenue	(24,516,244)	(21,855,459)
Adjustments during the year	-	(1,498,680)
Grant recalled	(646,000)	-
	<b>3,956,617</b>	<b>3,621,861</b>

Conditions still to be met - remain liabilities (see note 11).

#### INEP - Rural electrification

Expended jointly with COGTA grant	(127,094)	-
Current-year receipts	5,000,000	-
Conditions met - transferred to revenue	(4,872,906)	-
	-	-

#### Urban renewal plan

Balance unspent at beginning of year	238,298	238,298
Current-year receipts	-	-
Conditions met - transferred to revenue	(238,298)	-
	-	<b>238,298</b>

#### Management assistance project

Balance unspent at beginning of year	100,000	100,000
Current-year receipts	-	-
Conditions met - transferred to revenue	(100,000)	-
	-	<b>100,000</b>

#### Small town rehabilitation grant

Current-year receipts	10,000,000	-
Conditions met - transferred to revenue	(2,346,330)	-
	<b>7,653,670</b>	-

Conditions still to be met - remain liabilities (see note 11).

#### Corridor Development

Balance unspent at beginning of year	2,040	2,040
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	<b>2,040</b>	<b>2,040</b>

Conditions still to be met - remain liabilities (see note 11).

# Umvoti Local Municipality

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### 20. Government grants and subsidies (continued)

#### Eshane development

Balance unspent at beginning of year	85,023	225,539
Current-year receipts	-	-
Conditions met - transferred to revenue	(60,052)	(140,516)
	<b>24,971</b>	<b>85,023</b>

Conditions still to be met - remain liabilities (see note 11).

#### Phasiwe farm

Balance unspent at beginning of year	17,399	17,399
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	<b>17,399</b>	<b>17,399</b>

Conditions still to be met - remain liabilities (see note 11).

#### FMG

Balance unspent at beginning of year	2,917	2,917
Current-year receipts	1,700,000	-
Conditions met - transferred to revenue	(1,554,456)	-
	<b>148,461</b>	<b>2,917</b>

Conditions still to be met - remain liabilities (see note 11).

#### Gijima KZN

Balance unspent at beginning of year	12,451	12,451
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	<b>12,451</b>	<b>12,451</b>

Conditions still to be met - remain liabilities (see note 11).

#### Storm damage grant

Balance unspent at beginning of year	43,170	2,821,500
Conditions met - transferred to revenue	-	-
Other	-	(2,778,330)
	<b>43,170</b>	<b>43,170</b>

Conditions still to be met - remain liabilities (see note 11).

#### Library Grant

Balance unspent at beginning of year	149,829	78,900
Current-year receipts	-	120,000
Conditions met - transferred to revenue	(9,371)	(49,071)
	<b>140,458</b>	<b>149,829</b>

Conditions still to be met - remain liabilities (see note 11).

# Umvoti Local Municipality

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### 20. Government grants and subsidies (continued)

#### Disaster management grant

Current-year receipts	159,000	-
Conditions met - transferred to revenue	-	-
	<u>159,000</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 11).

#### Specific Programme

Balance unspent at beginning of year	77,353	77,353
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	<u>77,353</u>	<u>77,353</u>

Conditions still to be met - remain liabilities (see note 11).

#### INEP- 497 sites

Balance unspent at beginning of year	-	-
Current-year receipts	7,000,000	-
Conditions met - transferred to revenue	(6,065,608)	-
Overspend	(257,355)	-
	<u>677,037</u>	<u>-</u>

The overexpenditure will be recovered from 2016 grants.

#### Thusong centre

Balance unspent at beginning of year	-	952,515
Current year receipts	-	-
Conditions met - transferred to revenue	-	(952,515)
	<u>-</u>	<u>-</u>

#### Kranskop expansion plan

Balance unspent at beginning of year	-	476,880
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(382,493)
Transfer	-	(94,387)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 11).

#### Woolstone greenfield plan

Balance unspent at beginning of year	-	320,200
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(176,290)
Transfer	-	(143,910)
	<u>-</u>	<u>-</u>

# Umvoti Local Municipality

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### 20. Government grants and subsidies (continued)

#### MSIG

Balance unspent at beginning of year	-	913,577
Current-year receipts	934,000	890,000
Conditions met - transferred to revenue	(934,000)	(1,175,577)
Adjustments	-	(628,000)
	-	-

#### Rural electrification- COGTA

Balance unspent at beginning of year	-	-
Current-year receipts	15,215,000	257,355
Conditions met - transferred to revenue	(15,342,094)	(257,355)
Expenditure from INEP grant	127,094	-
	-	-

#### Expanded public works program

Balance unspent at beginning of year	-	-
Current-year receipts	2,132,000	1,600,000
Conditions met - transferred to revenue	(2,132,000)	(1,600,000)
	-	-

### 21. Other revenue

Other income	274,555	1,152,865
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### 22. Other income

Other income	274,555	259,238
VAT Recovery	-	893,627
	274,555	1,152,865



# Umvoti Local Municipality

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### 23. General expenses

Accounting fees	62,374	69,857
Advertising	514,091	455,922
Auditors remuneration	977,337	1,077,043
Bank charges	459,447	333,437
Private ordinances and Acts	91,282	58,457
Commission paid	416,925	315,529
Consulting and professional fees	2,714,363	562,519
Consumables	1,255,573	1,521,933
Street signs	12,701	34,685
Machinery Costs	378,276	501,905
Entertainment	150,118	166,774
Landscaping	278,467	340,437
Animal Costs	74,266	46,330
Hire	267,771	154,990
Insurance	1,085,586	842,039
Community development and training	2,403,608	1,127,101
Civic Honour function	231,283	240,625
Anti Rabies	259,547	312,622
Disconnection costs	-	408
Study assistance	726,517	436,885
Magazines, books and periodicals	40,286	32,640
Meter Reading	50,821	54,114
Dist losses- control measures	739,302	1,918,324
Stores shortages	-	77,684
Disconnection fees	138,755	180,788
Printing and stationery	585,629	618,309
Youth	1,067,146	264,088
Contributions leav and bonus	279,155	647,070
Security (Guarding of municipal property)	116,942	104,867
Software expenses	143,785	130,449
Staff welfare	-	267,929
Subscriptions and membership fees	669,346	524,277
Telephone and fax	741,142	724,399
Transport and freight	3,509,457	3,055,523
Training	968,775	1,457,711
Delegation fees	1,726,923	1,174,803
Internet Supscription fees	70,997	49,100
Sewerage and waste disposal	103,093	87,808
Utilities - Other	1,901,975	1,788,863
Uniforms	187,056	-
Delivery costs	1,768	1,994
Fruitless expenses	-	2,847,148
Licences	395	395
shortages and supluses	(5,389)	54,040
Towing of Vehicles	6,850	482
Firebreaks	-	16,323
Professional Driver's Permits	-	118
Grants and Subsidies paid	3,724,390	5,913,889
Veterinary department	951	-
Indigent burials	391,050	212,431
Work and play	70,708	52,009
Transport capital charges	(64,815)	(13,764)
Handling charges	(341,196)	(323,075)
Transport operating charges	(196,530)	(221,204)
	<b>28,988,299</b>	<b>30,299,030</b>

# Umvoti Local Municipality

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## Notes to the Annual Financial Statements

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<b>24. Employee related costs</b>		
Basic	39,208,521	34,565,438
Bonus	2,303,749	2,120,717
Medical aid - company contributions	1,330,613	1,320,553
UIF	293,854	275,234
Pension contributions	6,429,735	4,973,216
Housing benefits and other allowances	1,600,862	1,256,496
Overtime payments	1,192,141	635,007
Travel ,motor car,accommodation and other allowances	2,430,228	2,587,879
Service Allowances	1,259,911	908,182
Post employments contributions	1,684,259	-
Less: Employee costs included in other expenses	(1,498,400)	(2,342,311)
Less: Employee costs capitalised to PPE	(629,880)	(231,855)
	<b>55,605,593</b>	<b>46,068,556</b>
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	1,011,450	796,043
Car Allowance	180,000	319,543
Cell phone allowance	18,000	18,000
	<b>1,209,450</b>	<b>1,133,586</b>
<b>Remuneration of Chief Finance Officer</b>		
Annual Remuneration	663,197	638,197
Car Allowance	91,137	91,137
Contributions to UIF, Medical and Pension Funds	132,136	178,313
Leave pay	-	56,509
	<b>886,470</b>	<b>964,156</b>
<b>Remuneration of Manager: Planning</b>		
Annual Remuneration	805,846	749,330
Car Allowance	128,000	144,000
Cellphone allowance	6,000	6,000
	<b>939,846</b>	<b>899,330</b>
<b>Remuneration of Manager: Good Governance</b>		
Annual Remuneration	663,922	625,897
Car Allowance	103,678	103,678
Contributions to UIF, Medical and Pension Funds	60,783	155,720
Acting Allowance	20,915	19,171
Cellphone Allowance	-	6,000
	<b>849,298</b>	<b>910,466</b>
<b>Remuneration of Manager: Legal services</b>		
Annual Remuneration	520,377	583,537
Car Allowance	80,000	120,000
Contributions to UIF, Medical and Pension Funds	12,977	-
Acting allowance	56,397	56,397
Housing Allowance	22,715	189,793
Cell phone allowance	4,000	6,000
	<b>696,466</b>	<b>955,727</b>

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### 25. Remuneration of councillors

Ward Committee Members	1,733,895	1,105,650
Councillors	6,037,570	5,762,124
	<b>7,771,465</b>	<b>6,867,774</b>

#### In-kind benefits

The Mayor, Deputy Mayor and Speaker are provided with an office, secretarial support, vehicles and security at the cost of the Council. The mayor also enjoys the benefits of a council house.

Payments to a part time councillor, in excess of the upper limits and totalling R 75 745 are currently being investigated with a view to recovery.

#### Councillors Allowances

Mayor	367,136	545,248
Speaker	390,279	
Deputy mayor	380,334	
Executive committee members	617,938	287,770
Ordinary Councillors	4,283,629	4,504,427
	<b>6,039,316</b>	<b>5,337,445</b>

### 26. Investment revenue

#### Interest revenue

Bank	4,499,065	3,640,853
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### 27. Depreciation and amortisation

Property, plant and equipment	20,124,097	19,425,420
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### 28. Auditors' remuneration

Audit fees	977,337	1,077,043
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### 29. Contracted services

Rural Electrification	14,405,447	3,101,853
Consultant/Contractors	4,657,093	2,843,749
Kranskop expansion plan	-	382,493
Valuation expenses	504,104	1,797,118
Other Contractors	5,471,678	2,502,614
	<b>25,038,322</b>	<b>10,627,827</b>

### 30. Grants and subsidies paid

#### Other subsidies

Indigent support	1,294,104	1,262,704
Widow and Elderly	125,947	70,285
Disabled persons	65,921	13,415
Other	22,986	975,501
	<b>1,508,958</b>	<b>2,321,905</b>

# Umvoti Local Municipality

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## Notes to the Annual Financial Statements

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	2015	2014
<b>31. Bulk purchases</b>		
Electricity	36,242,982	32,855,618
<b>32. Cash generated from operations</b>		
(Deficit) surplus	(9,604,086)	24,057,306
<b>Adjustments for:</b>		
Depreciation and amortisation	20,124,097	19,425,420
Loss on sale of assets and liabilities	-	(30,519)
Fair value adjustments	978,405	-
Impairment deficit	3,873,333	113,837
Movements in retirement benefit assets and liabilities	1,252,516	-
Movements in provisions	431,743	-
Prior year	-	(4,272,671)
<b>Changes in working capital:</b>		
Inventories	(792,085)	(836,956)
Receivables from exchange transactions	(3,873,333)	5,376,901
Consumer debtors	(5,884,202)	(3,374,599)
Other receivables from non-exchange transactions	978,921	-
Payables from exchange transactions	21,229,103	(721,542)
VAT	(10,239,802)	3,272,800
Unspent conditional grants and receipts	8,562,286	(1,820,923)
Consumer deposits	65,131	-
Current portion of long term debtors	-	932
	<b>27,102,027</b>	<b>41,189,986</b>
<b>33. Commitments</b>		
<b>Authorised capital expenditure</b>		
• Approved and Contracted for	41,839,848	10,547,318
<b>Total capital commitments</b>		
Already contracted for but not provided for	41,839,848	10,547,318
<b>Authorised operational expenditure</b>		
<b>Already contracted for</b>		
• leases of office machines	366,513	645,730
<b>Total operational commitments</b>		
Already contracted for	366,513	645,730
<b>Operating leases - as lessee (expense)</b>		
<b>Minimum lease payments due</b>		
- within one year	199,916	227,905
- in second to fifth year inclusive	166,597	417,825
	<b>366,513</b>	<b>645,730</b>

# Umvoti Local Municipality

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<b>34. Fruitless and wasteful expenditure</b>		
Expenditure during the year	-	2,847,148
Approved by council or condoned	-	(2,847,148)
	-	-
<b>35. Irregular expenditure</b>		
<b>Expenditure incurred due to non compliance with SCM regulations</b>		
Opening balance	-	-
Add: Irregular Expenditure - current year	15,371,555	4,215,682
Less: Amounts condoned	-	(4,215,682)
	<b>15,371,555</b>	<b>-</b>
<b>36. Deviation from supply chain management regulations</b>		
Deviations from SCM policy approved by the Accounting Officer.		
Opening balance	-	253,200
Deviations Current year	7,710,413	1,497,584
Condoned by Council	(7,710,413)	(1,750,784)
	-	-
All deviations prior and current year were reported and approved accordingly.		
<b>37. Electricity Distribution Losses</b>		
<b>Electricity losses</b>		
Units Purchased (Kwh)	47,048,586	47,053,601
Units sold( Kwh)	39,479,280	39,754,706
Units lost in distribution	7,569,306	7,298,895
<b>Total cost of Distribution losses in Rands</b>	<b>5,781,872</b>	<b>5,096,818</b>
The municipality incurred distribution losses during the year. These losses are calculated as the difference between power supplies invoiced Eskom and amounts billed to consumers as above.		
The total distribution loss is 16.08% (2014/2015) and 16% (2013/2014)		
<b>38. Contingencies</b>		
<b>Contingent liabilities</b>		
Estimated contingent liabilities are set out below		
1.Investigation Report Internal Matter of Misconduct	835,695	-
2.Disciplinary proceedings Umvoti Municipality / Mr Swanlow & Archer	91,380	-
3.Matter of Rural Metro Fire Engine, Barloworld and D N Khumalo - Employee damaged private vehicle	188,766	-
4.Claim for damages against Umvoti Municipality, claims his vehicle was damaged by Municipal Property	25,050	-
5.Marina Beach Matter	86,808	-
6.Construction of Testing Station contract terminated	286,485	-
7.Service providers appointed outside SCM procedures	154,000	-
8.In the matter of Barloworld and Umvoti Municipality	14,005	-
	<b>1,682,189</b>	<b>-</b>

# Umvoti Local Municipality

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### 39. Related parties

During the year no transactions were conducted with councillors or entities in which they held interests.

Particulars regarding remuneration to municipal management are set out in note 24.

### 40. Prior period errors

The correction of the error(s) results in adjustments as follows:

#### Accumulated surplus

Amount previously reported	-	171,530,399
Performance bonus provision reversed	-	250,000
Investment property not previously recognised	-	345,000
Investment property fair value correction	-	(2,288,000)
Transfer from revaluation reserve	-	276,138,081
Net PPE adjustments	-	(52,130)
<b>Restated balance</b>	-	<b>445,923,350</b>

#### Housing Development Fund

Balance at 1 July 2013 as previously reported	-	11,992,322
Transfer from Investment property	-	(1,254,000)
<b>Restated balance</b>	-	<b>10,738,322</b>

#### Investment Property

Balance at 1 July 2013 as previously reported	-	20,884,000
Transfers from PPE	-	22,738,405
First time recognition	-	345,000
Transfer to Housing Development Fund	-	(1,254,000)
Transfer to PPE	-	(782,000)
Fair value adjustment	-	(2,288,000)
	-	<b>39,643,405</b>

#### Land and Buildings - Cost

Cost previously reported	-	114,109,448
Reclassification to investment property	-	(22,738,405)
Reclassification from investment properties	-	782,000
<b>Restated Balance</b>	-	<b>92,153,043</b>

#### Land and Buildings- NBV

Opening net book value as previously reported	-	108,256,755
Reclassification to investment properties	-	(22,738,405)
Reclassification from investment properties	-	782,000
<b>Restated Balance</b>	-	<b>86,300,350</b>

#### Community Assets

Cost as previously reported	-	39,017,543
Adjustment to asset register	-	(18,508)
<b>Restated Balance</b>	-	<b>38,999,035</b>

#### Infrastructure Assets

Cost as previously reported	-	302,295,309
Adjustment to asset register	-	(99,529)
<b>Restated Balance</b>	-	<b>302,195,780</b>

# Umvoti Local Municipality

Annual Financial Statements for the year ended 30 June 2015

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### 40. Prior period errors (continued)

#### Other Property plant and equipment

As previously reported	-	19,677,771
Adjustment to asset register	-	65,912
<b>Restated Balance</b>	-	<b>19,743,683</b>

#### Revaluation Reserve

Balance as previously reported	-	276,138,081
Transferred to accumulated surplus	-	(276,138,081)
<b>Restated balance</b>	-	<b>-</b>

#### Cash and cash equivalents-Absa main account

As previously reported	-	5,964,022
Cash on hand - duplicated	-	(327,452)
<b>Restated Balance</b>	-	<b>5,636,570</b>

### 41. Risk management

#### Maximum risk exposure

Credit risk consists mainly of cash deposits, cash equivalents and consumer debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Consumer receivables comprise a widespread customer base. Management evaluated credit risk relating to consumers on an ongoing basis. If consumers are independently rated, these ratings are used. Otherwise, if there is no dependent rating, risk control assesses the credit quality of the customer, taking into account financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the municipality.

These balances represent the maximum exposure to credit risk:

Cash and cash equivalents	39,475,812	59,860,243
Consumer Debtors	27,764,013	21,879,811
	<b>67,239,825</b>	<b>81,740,054</b>

#### Liquidity risk

The municipality's risks to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities into amounts due within 12 months after year end:

Payables from exchange transactions	42,476,988	21,247,885
Unspent grants	13,303,784	4,741,498
	<b>55,780,772</b>	<b>25,989,383</b>

#### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

At 30 June 2015, financial instruments exposed to interest rate risk were call deposits and notice deposits.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates. With all other variables held constant, the municipality's deficit for the year is affected through the impact on variable rate investments as follows:

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<b>41. Risk management (continued)</b>		
<b>1% increase 2015 and 2% decrease in 2014</b>		
Cash and cash equivalents	394,758	(789,516)
Consumer debtors	277,640	(555,280)
	<b>672,398</b>	<b>(1,344,796)</b>
<b>42. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Council contributions	530,050	450,000
Amount paid - current year	(530,050)	(450,000)
<b>Balance outstanding</b>	-	-
<b>Audit fees</b>		
Current year fee	977,200	1,077,043
Amount paid - current year	(977,200)	(1,077,043)
<b>Balance unpaid-included in accounts</b>	-	-
<b>PAYE and UIF and SDL</b>		
Deductions and contributions	7,287,667	5,219,961
Amount paid - current year	(6,649,949)	(5,219,961)
<b>Balance unpaid</b>	<b>637,718</b>	-
<b>Pension and Medical Aid Deductions</b>		
Deductions and contributions	8,943,874	8,483,678
Amount paid - current year	(8,943,874)	(8,483,678)
<b>Balance outstanding</b>	-	-



# Umvoti Local Municipality

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### 42. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Councillors' arrear consumer accounts

The following Councillors and staff had arrear accounts outstanding for more than 90 days at 30 June 2015:

#### 30 June 2015

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Dlamini MR			
Staff	2,706	19,356	22,062
Nzama NV and Z			
Xulu BL	1,612	8,710	10,322
Gwala LP	6,216	3,912	10,128
Mhlongo BA	3,681	5,001	8,682
	5,723	26,357	32,080
	<b>19,938</b>	<b>63,336</b>	<b>83,274</b>

#### 30 June 2014

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Zuma PT			
Dlamini MR	484	2,436	2,920
Staff	6,711	12,242	18,953
Nzama NV and Z			
	1,532	6,488	8,020
	<b>8,727</b>	<b>21,166</b>	<b>29,893</b>

### 43. Budget differences

#### Material differences between budget and actual amounts

##### Service charges

Increase in traffic fine collection due to intervention by the department of justice, service delivery protest along the N3 resulting in injection of income from abnormal load vehicles and interest from outstanding debts due to increased collection efforts.

##### Interest received on investments

Increase in funds invested and yielding more interest.

##### Government grant and subsidies

Additional grant funding was received from COGTA to fasttrack electrification programmes.

##### Personnel

Vacancies of 4 section 56 Posts as well the non finalization of the placement process.

##### Materials and bulk purchases

Electricity saving measures implemented during the peak seasons such as winter.

##### General Expenses

Total includes expenditure for electrification projects which is financed by the grants and subsidies revenue sources.